SCHEDULE TC Form 740 42A740-TC Commonwealth of Kentucky REVENUE CABINET	TAX COMPUTATION SCHEDULE ➤ Attach to Form 740 or 740-X. ➤ See Instructions on Reverse.	1998

Enter name(s) as shown on Form 740, page 1.	Your Social Security Number

Complete this schedule and file with Form 740 if you and/or your spouse are:

- Computing the tax using five- or 10-year averaging *(Form 4972-K)*.
- Claiming credit for tax paid to another state.
- Claiming a tax credit for hiring an unemployed person *(Schedule UTC)*.
- Claiming a tax credit for purchasing (installing) recycling and/or composting equipment *(Schedule RC)*.

PART I—TAX COMPUTATION

		A. Spouse	B. Yourself (or Joint)
1. Enter **Taxable Income** from Form 740, line 12	1		
2. Compute tax on amount from line 1 using the **Tax Rate Schedule in Part III**. Enter tax	2		
3. Enter tax from Form 4972-K (Kentucky Tax on Lump-Sum Distributions)	3		
4. Add lines 2 and 3	4		

PART II—TAX CREDIT SUMMARY

		A. Spouse	B. Yourself (or Joint)		
5. (a) Tax credits. Multiply $20 by credits from Form 740, line 5, and enter result	5(a)				
(b) Enter credit for tax paid to another state *(attach copy of return(s) filed with other state(s))*	(b)				
(c) Enter credit for hiring qualified unemployed persons *(attach Schedule UTC)*	(c)				
(d) Enter credit for recycling and/or composting equipment *(attach **approved** Schedule RC)*	(d)				
6. Add amounts on lines 5(a) through (d). Enter total	6				
7. Subtract amount on line 6 from line 4. Enter result here and on Form 740, line 13, and check Schedule TC block. *(If line 6 exceeds line 4, enter zero here and on Form 740, line 13.)*	7				

PART III—TAX RATE SCHEDULE

This tax rate schedule is to be used for amounts shown on line 1.

If taxable income is:	*Tax is:*
$3,000 or less	2% of taxable amount
over $3,000 but not over $4,000	$60 plus 3% of amount over $3,000
over $4,000 but not over $5,000	$90 plus 4% of amount over $4,000
over $5,000 but not over $8,000	$130 plus 5% of amount over $5,000
over $8,000	$280 plus 6% of amount over $8,000

INSTRUCTIONS—SCHEDULE TC

You must file Schedule TC if:

- ✓ you received a lump-sum distribution and compute your tax on Form 4972-K;
- ✓ you claim a nonrefundable credit for tax paid to another state;
- ✓ you claim the nonrefundable employer's unemployment tax credit; or
- ✓ you claim a nonrefundable credit for recycling and/or composting equipment.

Line 2—Use the Tax Rate Schedule in Part III to compute your tax.

Personal tax credits will be deducted on line 5(a). You cannot use the optional tax table in the instructions.

Line 3, Special Five– or 10–Year Averaging—Kentucky allows a special five- or 10-year averaging method for determining tax on lump-sum distributions received from certain retirement plans that qualify for federal five- or 10-year averaging. If this special method is used for federal purposes, Form 4972-K, Kentucky Tax on Lump-Sum Distributions, and Schedule P, Pension Income Exclusion, must be filed with Form 740.

Line 5(a), Tax Credits—You may deduct $20 for each tax credit claimed.

Line 5(b), Credit for Tax Paid to Another State—Kentucky residents are required to report all income received including income from sources outside Kentucky. Within certain limitations, a credit for income tax paid to another state may be claimed on Schedule TC. The credit is **limited** to the amount of Kentucky tax savings had the income reported to the other state been omitted, **or** the amount of tax paid to the other state, **whichever is less**.

You may not claim credit for tax withheld by another state. You must file a return with the other state, and pay tax on income also taxed by Kentucky in order to claim the credit. A copy of the other state's return including a schedule of income sources must be attached to verify this credit. **If you owe tax in more than one state, the credit for each state must be computed separately**.

Example: Wilma Taxpayer is a full-year resident. She claims one tax credit and $1,200 standard deduction. In 1998, she earned $10,000 in Missouri and will pay $400 tax to Missouri. Wilma's Kentucky tax on her total income of $30,000, including the Missouri income, is $1,508. To compute the tax savings, she subtracts the Missouri income and computes $908 tax on the remaining income of $20,000. Wilma can claim a credit for tax paid to another state of $400 because the tax paid of $400 is less than the tax savings of $600.

Reciprocal States—Kentucky has reciprocal agreements with specific states. These agreements provide that taxpayers be taxed by their state of residence, and not the state where income is earned. The states and types of exemptions are as follows:

Illinois, Ohio, West Virginia—wages and salaries
Indiana—wages, salaries and commissions
Michigan, Wisconsin—income from personal services (including salaries and wages)
Virginia—commuting daily, salaries and wages

Kentucky does not allow a credit for tax paid to a reciprocal state **on the above income**. If tax was withheld by a reciprocal state, you must file directly with the other state for a refund of those taxes.

Line 5(c), Employer's Unemployment Tax Credit—If you hired unemployed Kentucky residents to work for you during the last six months of 1997 or during 1998, you may be eligible to claim the unemployment tax credit. In order to claim a credit, each person hired must meet specific criteria. For each qualified person, you may claim a tax credit of $100. The period of unemployment must be certified by the Department for Employment Services, Cabinet for Workforce Development, Second Floor West, 275 East Main Street, Frankfort, KY 40621-0001, and you must maintain a copy of the certification in your files. To claim this credit you must complete and attach Schedule UTC.

Line 5(d), Recycling and/or Composting Equipment Tax Credit—Individuals who purchase recycling or composting equipment to be used exclusively in Kentucky for recycling or composting postconsumer waste materials, are entitled to a credit against the tax equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, which may be obtained from the Revenue Cabinet. The credit claimed for the taxable year during which the equipment is purchased (installed) is limited to 10 percent of the total allowable credit and 25 percent of the tax liability less **other credits** claimed. For each succeeding year, the credit is limited to 25 percent of the tax liability for the taxable year. Tax liability is the amount of tax on line 4, Schedule TC, minus credits claimed on lines 5(a), (b) and (c). The unused portion of the total credit may be carried forward to succeeding tax years. (See Schedule RC.) A copy of Schedule RC and/or Schedule RC (K-1) reflecting the amount of credit **approved** by the Revenue Cabinet must be attached to the return.